

Message Text

SECRET

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ACTION SS-25

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FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC IMMEDIATE 5142

S E C R E T MOSCOW 14139

EXDIS

PLEASE PASS TO FRANK ZARB, FEA FROM BELL

E. O. 11652: GDS

TAGS: ETRD, UR, US

SUBJ: SOVIET OIL NEGOTIATIONS

REF: A. MOSCOW 14083

B. MOSCOW 14085

1. URGE PROMPT APPROVAL, IF AT ALL POSSIBLE BY COB WASHINGTON OCTOBER 3, OF DRAFT LETTER OF INTENT IN REFTEL A (INCLUDING CORRECTION REFTEL B) EVEN THOUGH DRAFT LETTER OF INTENT DOES NOT CONFORM TO ORIGINAL INSTRUCTIONS.

2. EVEN IF SOVIETS DO NOT ULTIMATELY PROVIDE PRICE DISCOUNT WHICH CAN BE PUBLICLY ACKNOWLEDGED, LETTER OF INTENT WOULD BE CONSISTENT WITH STRAIGHT COMMERCAIL PURCHASES AT OPTION OF US BUYERS. SUCH SALES WOULD STILL HAVE SIGNIFICANT ECONOMIC AND POLITICAL ADVANTAGES:

(1) SUPPLY SOURCES WOULD BE FURTHER DIVERSIFIED. ALTHOUGH SOVIET OIL IS NO MORE SECURE THAN OPEC OIL, TOTAL SECURITY IS ENHANCED AS THE NUMBER OF INDIVIDUAL SOURCES INCREASES.

(2) SOVIET SALES COULD REDUCE TOTAL OPEC SALES IF SOVIET SUPPLY COMES FROM INCREASED PRODUCTION OR REDUCED CONSUMPTION IN USSR OR EASTERN EUROPE. IN THIS RESPECT THE EFFECT IS THE SAME AS OUR OWN CONSERVATION EFFORTS.

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(3) OPEC PRICING DIFFICULTIES WOULD BE INCREASED. PRICING OF SOVIET SALES AT PARITY WITH THE PERSIAN GULF IS DIFFICULT BECAUSE OF GEOGRAPHICAL LOCATION OF DELIVERIES, AND HENCE EVEN COMMERCIAL PRICING IS LIKELY TO PROVIDE SIGNIFICANT ROOM FOR DISGUISED DISCOUNTS. THIS COULD INCREASE EXISTING CONFLICTS WITHIN OPEC OVER APPROPRIATE PRICING FORMULAS FOR CRUDES OUTSIDE OF THE PERSIAN GULF. THIS IS IMPORTANT AS MOST EXISTING OPEC PRICING PROBLEMS RESULT FROM THE INABILITY OF INDIVIDUAL PRODUCING COUNTRIES OUTSIDE PERSIAN GULF TO AGREE ON APPROPRIATE PARITY WITH PERSIAN GULF MARKER CRUDE.

(4) SOVIETS WOULD BE PLACED IN A DIFFICULT POSITION IN ANY SUBSEQUENT EMBARGO BY ARAB COUNTRIES. APPARENTLY INDIRECT SALES BY SOVIETS CONTINUED IN LAST EMBARGO AND COULD PROBABLY BE EXPECTED TO DO SO IN THE FUTURE, ESPECIALLY IF MADE PURSUANT TO A GOVERNMENT-TO-GOVERNMENT AGREEMENT.

3. PRICING REMAINS OPEN. WHAT LEVERAGE WAS AVAILABLE FROM GRAIN SALES HAS LARGELY BEEN EXPENDED IN SEEKING A LONG-TERM GRAIN CONTRACT AND HIGHER RATES FOR GRAIN SHIPMENTS, BUT THERE STILL REMAINS CONSIDERABLE SCOPE FOR NEGOTIATION, ESPECIALLY IF PRICE IS ESTABLISHED TO PERMIT DELIVERIES TO US. BECAUSE PRICING IS NOT RESOLVED ANY AGREEMENT SHOULD NOT BE "OVERSOLD."
STOESSEL

NOTE BY OC/T: NOT PASSED FEA.

SECRET

NNN

Message Attributes

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